

CHAIRMAN JIM HIMES (CT-04)

RANKING MEMBER BRYAN STEIL (WI-01)

Tackling the Tax Code: Evaluating Fairness, Efficiency, and Potential to Spur Inclusive Economic Growth (06/21/22)

The federal government imposes various taxes on people and businesses to raise the revenue necessary to pay for national defense and vital investments. Federal income taxes – levied on the wages, salaries, investments, or other forms of income an individual or household earns – were ratified into the Constitution more than a century ago. Initially these taxes were levied exclusively on top income earners, but changes in both the U.S. economy and the tax code have yielded a system where the very wealthy can reduce their effective tax rates, in part due to access to different, lower-taxed sources of income and tax expenditures tailored to upper income Americans. Tax policy should raise enough revenue in a fair and efficient manner that enables all Americans to prosper.



On Wednesday June 22, 2022, the Select Committee held a hearing, “Tackling the Tax Code: Evaluating Fairness, Efficiency and Potential to Spur Inclusive Economic Growth,” to examine how tax policy affects economic disparity, focusing on how individual and corporate income taxes influence household and business decisions, macroeconomic performance, the distribution of economic well-being across households, and the allocation of resources across different sectors of the economy.

Potential Policy Proposals

Experts offered the following recommendations for consideration:

Support Lower-Income Households Through Key Tax Provisions

- Make significant investments through refundable tax credits with proven records of supporting middle-class and working-class families and communities like the Child Tax Credit, Earned Income Tax Credit, and the Child and Dependent Care Tax Credit.
- Introduce a consolidated federal tax credit for working families by merging the three primary tax benefits for families with children, (Earned Income Tax Credit, the Child Tax Credit, and the Head of Household Tax preference) into one child-related benefit administered through the tax system.
- Implement a “wealth tax credit” for all taxpayers in U.S. households with below-median wealth of \$100,000, refundable to a fixed amount that each taxpayer is eligible to receive.

Reduce Economic Inequality by Taxing High-Wealth Households

- Rebalance high-budgetary cost tax expenditures away from wealthier households and towards low- and middle-income households.
- Institute new taxes on very high-wealth households, like a minimum tax on people whose net wealth exceeds \$100 million, and/or on high-income households like a tax surcharge on households with incomes above \$10 million.
- Reform the corporate international tax system by increasing effective tax rates on various forms of capital income that currently escape taxation.
- Repeal provisions in the Tax Cuts and Jobs Act (TCJA) that disproportionately benefit wealthy taxpayers, including the Qualified Business Income Deduction (Section 199A), the Medicare tax loophole and the Net Investment Income Tax loophole.
- Eliminate the Step Up in Basis Tax Loophole that benefits the wealthiest families.
- Convert the estate tax to an inheritance tax with a low exemption.

Improve Tax Administration and Reduce Compliance Costs

- Restore and increase Internal Revenue Service (IRS) funding to achieve greater tax enforcement, boost timely reporting by financial institutions for transparency and accountability to the public and ensure low- and moderate-income tax filers can access tax benefits intended to support saving, wealth building, and affordable childcare to participate in the labor market.
- Require U.S. Department of the Treasury, the IRS, and the Joint Committee on Taxation to provide legislative analysis of economic benefit by race for pending legislation, such as a Congressional Budget Office score, to see common ground taxpayers have across racial and ethnic lines.
- Roll back TCJA's prohibition against claiming children with individual tax identification numbers for the CTC, which prevents roughly 1 million children from receiving the credit.

Hearing Panelists

The following experts provided the potential policy recommendations listed above:



- **Dr. William Gale**, Senior Fellow, Brookings Institution and Co-Director of the Urban-Brookings Tax Policy Center
- **Professor Dorothy Brown**, Professor of Law, Georgetown University Law School
- **Seth Hanlon**, Senior Fellow, Center for American Progress
- **Amy Matsui**, Director of Income Security and Senior Counsel, National Women's Law Center
- **Dr. Angela Rachidi**, Senior Fellow and Rowe Scholar, American Enterprise Institute